HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Calgary CMA

CANADA MORTGAGE AND HOUSING CORPORATION

Date Released: Spring 2011

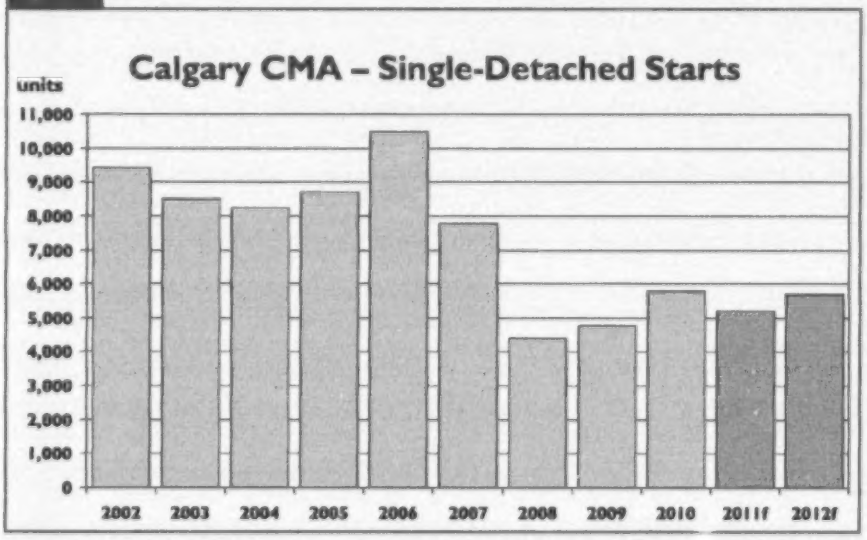
NEW HOME MARKET

Total Housing Starts Decline in 2011 Before Rising Next Year

Following an increase of 47 per cent last year, total housing starts in the Calgary Census Metropolitan Area (CMA) are forecast to decline 8.2 per cent in 2011, reaching 8,500 units.

Although fewer homes will break ground on an annual basis, activity in new home construction is anticipated to gradually improve throughout the year. The decline in total housing starts will be attributed to a lower level of single-detached starts in the early months of 2011 and a reduced number of multi-family starts due to elevated inventories. Improving economic conditions and stronger employment growth is expected to support housing demand over the balance of this year and into 2012.

Figure 1



Source: CMHC, CMHC Forecast (f)

The forecasts included in this document are based on information available as of April 28, 2011.

Table of Contents

1 New Home Market
4 Resale Market
5 Rental Market
6 Economic Overview
7 Mortgage Rate Overview
8 Forecast Summary

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Total housing starts in 2012 are forecast to increase 12.9 per cent to 9,600 units.

Single-detached Starts Tempered by Elevated Resale Competition

After increasing 21 per cent in 2010, single-detached starts are on pace to move lower this year. To the end of the first quarter, 981 single-detached homes broke ground, declining 35.8 per cent from the previous year. At the beginning of this year, active listings from the competing resale market moved higher, thus contributing to a slowdown of new home sales and starts. The moderating trend in single-detached construction experienced in the early months of 2011 is not expected to persist. As the economy benefits from higher activity in the energy sector and reduced competition from the resale market, single-detached production is anticipated to pick-up. Despite the improvements expected in the latter half of the year, the gains will not overcome the declines experienced earlier in the year. As a result, single-detached starts are forecast to decline ten per cent from 5,782 units in 2010 to 5,200 in 2011. An improvement in new construction in the second half of 2011 is anticipated to carry into 2012 with 5,700 units breaking ground. A stronger pace of job growth and net migration will contribute to next year's gain in single-detached starts.

Single-family builders have done well to manage their inventories during a period when demand moderated and supply in the resale market was elevated. This will provide builders an opportunity to increase production later in the year when demand for new homes improves. Calgary's inventory of complete and unabsorbed single-detached homes remained below 400 units in the first quarter of 2011, averaging 371 units per month. This tally was well below the 2001-2010 average of 591 units per month. Monthly absorptions have outpaced completions, keeping inventories relatively steady. To the end of March 2011, absorptions of single-detached dwellings totalled 1,023 units compared to 970 completions. A high proportion of homes this year have been absorbed at completion, many of which were pre-sold. With the resale market well supplied, builders have been cautious of starting spec units.

New House Prices Anticipated to Stay Flat

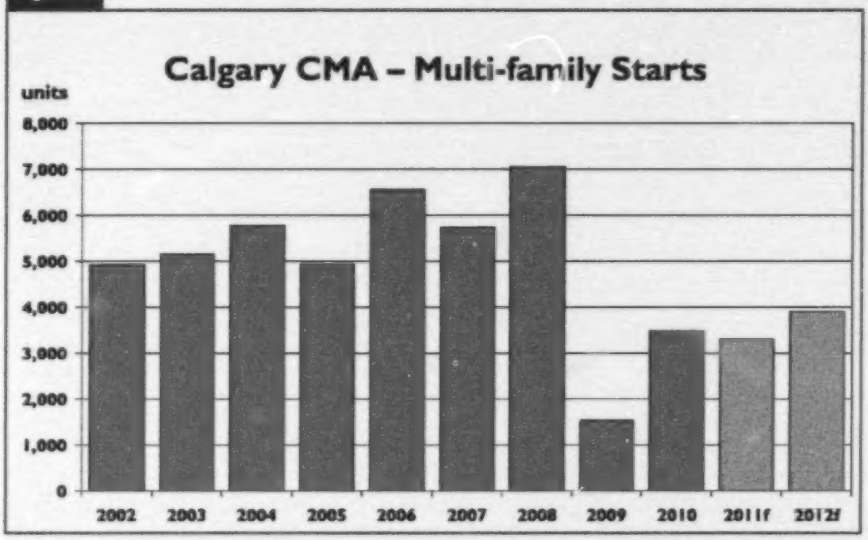
Statistics Canada's New House Price Index (NHPI) in 2010 finished the year up 1.7 per cent from 2009. Although new home prices in 2010 were up on a year-over-year basis, especially during the second and third quarter, prices on a month-over-over basis have not seen much movement since the beginning of 2010 and into 2011. In the Calgary CMA, the NHPI to the end of February was up 0.6 per cent on a year-over-year basis. The land component was responsible for the modest gain in prices as the house component was down from the previous year. Pressure on input costs have moderated from a year earlier with fewer homes under construction and an unemployment rate that has tempered wage growth. In the first three months of 2011, the number of single-detached units under construction was on average down 27.3 per cent from the previous year. The wide selection of homes in the resale market has also inhibited new home price growth in the last several months. The pressure on new home prices this year is expected to remain relatively modest with the NHPI forecast to increase 0.7 per cent.

Despite the gains towards the end of the year, the median single-detached absorbed price in 2010 finished the year down 3.3 per cent from 2009, reaching $435,251. The growth in the median price at the end of last year continued into the early months of 2011. To the end of March, the median price was $453,977, up 10.5 per cent from the previous year. The impressive increase can be partly attributed to the absorption of higher priced homes. Readers should note that the absorbed price reflects units absorbed at or after completion in a given month, which is not necessarily the month when the price was negotiated. Median absorbed price growth is anticipated to moderate and reflect the slowdown in the housing market experienced in the latter half of 2010. Overall, the median absorbed price is forecast to increase 2.2 per to $445,000 in 2011 and rise another 1.8 per cent to $453,000 in 2012.

Multi-family Starts Moderate in 2011

Multi-family starts rebounded to 3,480 units in 2010, after production in 2009 declined to its lowest level since 1996 with 1,543 starts. Although new construction in 2010 more than doubled the tally in 2009, multi-family starts were still below historical norms. From 2000 to 2009, multi-family starts averaged almost 5,000 units per year. Elevated inventories contributed to the moderation of starts in the last couple of years, and will also impact activity in 2011. Multi-family starts are forecast to decline 5.2 per cent from 3,480 units in 2010 to 3,300 in 2011. As inventories move lower throughout this year, multi-family production is anticipated to

Figure 2



Source: CMHC, CMHC Forecast (f)

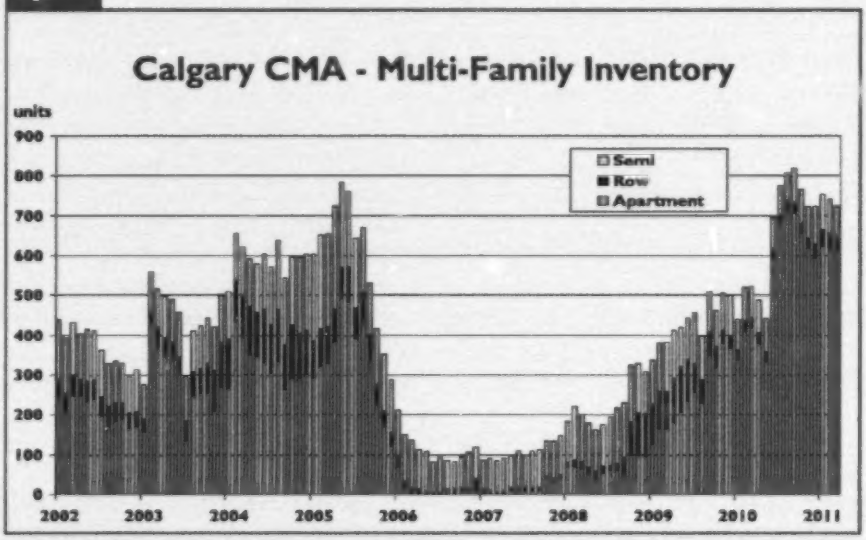
improve. In 2012, multi-family builders are expected to start 3,900 units, an increase of 18.2 per cent from this year.

As was the case in 2009 and 2010, concerns regarding elevated inventories, mostly attributed to the apartment segment, are expected to temper multi-family starts in 2011. Apartment starts generally represent the majority of multi-family production and declines in this segment have the most impact on multi-family totals. From the 1999 to 2008, apartment starts made up between 57 to 81 per cent of total multi-family starts. In 2009 and 2010, this proportion declined to 25 and 39 per cent, respectively, resulting in below average multi-family units breaking ground. The reduction in multi-family starts in 2011 will be mainly due to the apartment segment. Apartment builders will look to manage their current supply levels and adjust to competition from the resale market.

Multi-family inventories in March reached 725 units, an increase of 39 per cent from 523 units in 2010. Nearly 85 per cent or 614 multi-family units in inventory were apartments. A majority of the apartment units in inventory resided among larger buildings such as high-rise condominiums. Although apartment inventories remained elevated in the first quarter, they have been moving lower and were down from the record high of 710 units reached in August 2010. Builders have been taking steps to adjust to the elevated inventories and levels are anticipated to gradually decline throughout the forecast period. As indicated earlier, apartment starts in the last couple of years have been below historical averages, thus contributing to a decline in apartment units under construction. Apartment units under construction in March totalled 3,257 units, down 25 per cent from the previous year and reaching the lowest level since May 2004. With fewer units under construction, upward pressure on inventories will also ease.

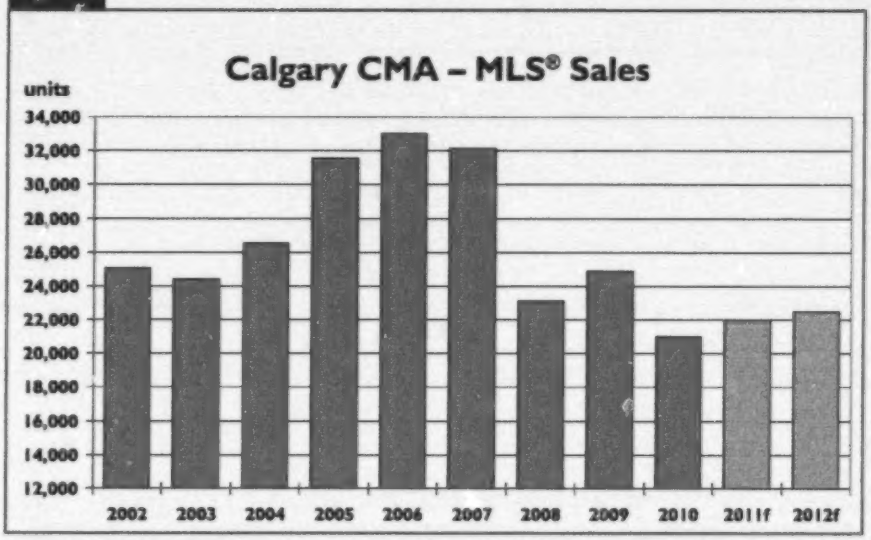
Inventories of semi-detached and row units have remained relatively steady across the Calgary region. There were a total of 111 semi-detached and row units in inventory at the end of March, consistent with the monthly average in 2010 of 107 units. Absorptions of semi-detached and row units have kept pace with completions, putting little pressure on inventories. In the first quarter, there were a total of 357

Figure 3



Source: CMHC

Figure 4



Source: CREA, CMHC Forecast (f)

semi-detached and row units absorbed compared to 339 completions. These types of units have experienced steady demand, and have been a popular option for first-time home buyers. In addition, with inventories for semi-detached and row units more balanced, it is expected that these types of units will play a more active role in multi-family production in 2011.

RESALE MARKET

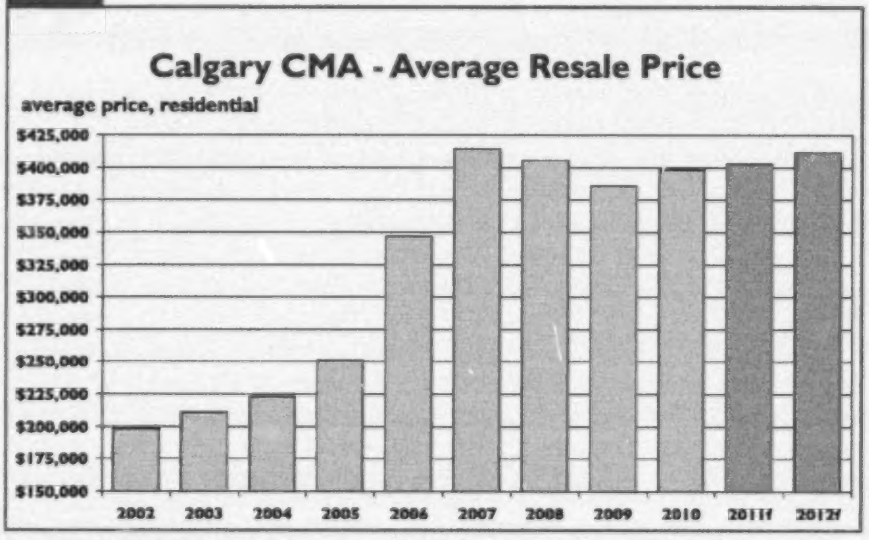
Resale Activity Improving

Residential MLS® sales in 2010 decreased 16 per cent from 2009, as historically low interest rates were unable to sustain the pace of activity built-up toward the end of 2009 and the beginning of 2010. Although some housing demand factors were slow to improve last year, modest gains are expected for 2011. Employment, income, and migration are anticipated to increase and contribute to more sales moving forward. Sales are forecast to increase 4.8 per cent from 20,996 units in 2010 to 22,000 in 2011. Relatively low interest rates will continue to support sales, however the pace of growth will be more reflective of improvements in the economy. A rise in economic activity, largely supported by the energy industry, is expected to maintain housing demand into 2012. CMHC forecasts residential MLS® sales in 2012 to increase another 2.3 per cent to 22,500 transactions.

Resale transactions in the first quarter of 2011 were slightly down from the previous year, declining 4.6 per cent to 5,492 units. The slowdown experienced in the latter half of 2010 has lingered into the early months of 2011, however the tempered pace of activity is not anticipated to continue for the entire year. Labour market conditions are gradually improving with the opening months of 2011 posting employment gains over the previous year. Although sales have started 2011 down from a year earlier, stronger activity in the second half of the year is expected to push the annual total above 2010 levels.

In the first quarter of 2011, resale activity favoured homes in the lower price ranges with some first-time home buyers taking advantage of low mortgage rates. In the city of Calgary, over half of the single-detached homes sold in the first three months of the year were priced under $400,000. For condominiums, over 65 per cent of units were sold for less than $300,000. The proportion of single-detached homes and condominiums sold in these lower price ranges were higher

Figure 5



Source: CREB, CMHC Forecast (f)

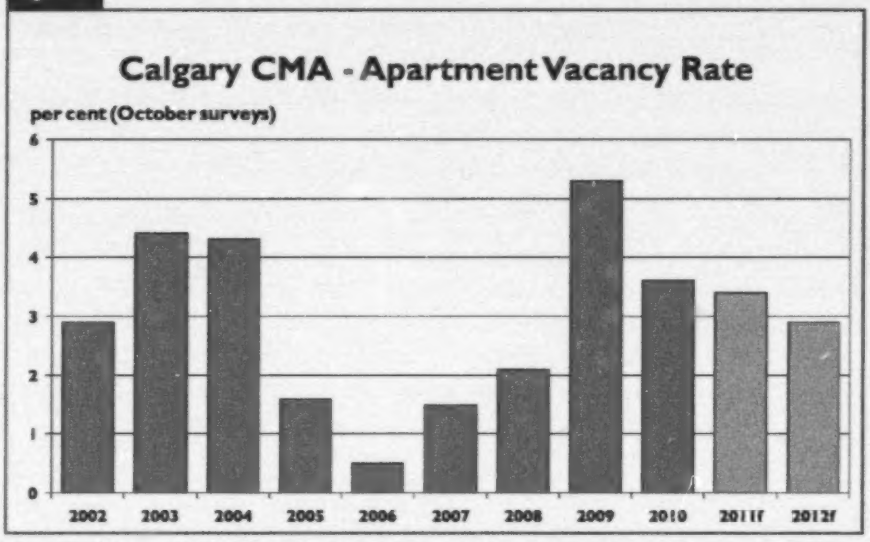
this year compared to 2010. With more homes sold in the lower price ranges, average price growth in the first quarter has been modest.

Stronger Price Gains Expected in 2012

The average price in 2011 is anticipated to increase for the second consecutive year, following two rare years of decline. From January to March, the average resale price was $398,558, up one per cent from $394,463 in 2010. With a higher proportion of sales occurring in the lower price ranges, price growth in the early months of the year has been muted as conditions also favoured the buyer. However, the average price is expected to gradually improve with resale market conditions becoming more balanced. To the end of 2011, the average price is forecast to reach $403,000, representing an increase of 1.1 per cent from $398,764 in 2010. In 2012, more balanced conditions are expected to push the average price up by 2.2 per cent to $412,000.

New listings are forecast to decline 1.7 per cent from 46,278 in 2010 to 45,500 in 2011. With fewer new listings coupled with stronger sales expected this year, active listings are anticipated to move lower, thus contributing to more balanced conditions. New listings in the first quarter totalled 11,937 units, down eight per cent from 2010. The sales-to-new listings ratio, on a seasonally adjusted basis, has been trending upward. The ratio was 53 per cent in March of this year, its highest level since January 2010 and well above the low of 36 per cent in June 2010. The rise in the sales-to-new listings ratio is indicative of firming resale market conditions that will promote a steadier pace of price growth.

Figure 6



Source: CMHC, CMHC Forecast (f)

RENTAL MARKET

Increased Net Migration to Strengthen Rental Demand

Improvements in rental demand lowered the apartment vacancy rate to 3.6 per cent in 2010, down from 5.3 per cent in 2009. With the economy continuing to strengthen, demand for rental accommodations is anticipated to further increase throughout the forecast period. Higher net migration, supported by an improving labour market, will move the vacancy rate lower as people moving to a new city tend to rent before purchasing a home. In addition, mortgage rates are expected to gradually increase along with the average price, leading to higher carrying costs and keeping some tenants in the rental market. The apartment vacancy rate is forecast to decline to 3.4 per cent in 2011 and 2.9 per cent in 2012.

Following two consecutive years of declines, property owners and landlords will have an opportunity to increase rents this year. With stronger demand for rental units and lower vacancies, fewer incentives will also be offered. The average two-bedroom apartment rent is forecast to increase from $1,069 in 2010 to $1,090 in 2011. The rise will help landlords and property owners offset some of the increase in maintenance and utility costs associated with maintaining a rental property. In 2012, the average two-bedroom rent is forecast to reach $1,120.

In 2010, apartment rental starts amounted to 286 units, up from only five units in 2009. The fluctuation in apartment rental starts is not uncommon in Calgary. From 2001 to 2010, apartment rental starts ranged from five to 463 units. In the first quarter of 2011, 49 apartment rental units have broken ground. Apartment rental completions in 2010 reached 241 units, increasing 80 per cent from 134 units in 2009. Another 124 rental apartments were completed in the

first three months of 2011 and with 332 units under construction in March, more completions are expected. Although newer rental projects are coming to market, the up-tick in demand coupled with other rental units being converted to condominiums will help move vacancies lower.

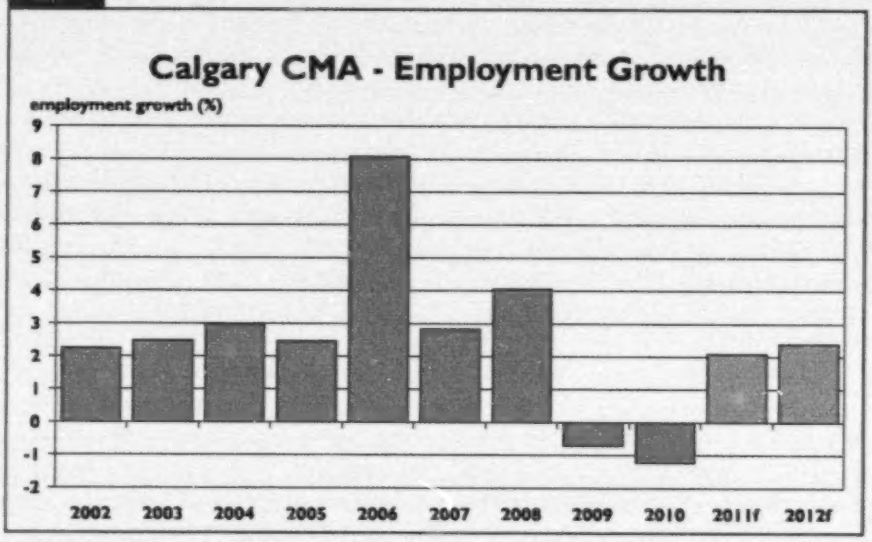
ECONOMIC OVERVIEW

Employment Growth Returns in 2011

Job creation in Calgary is anticipated to return in 2011, following two consecutive years of declines. In 2009 and 2010 when average employment declined 0.7 and 1.2 per cent, respectively, employers were more cautious hiring additional staff due to the slowdown in the economy. However, with the increased activity in the energy sector and its supporting industries, the prospects for employment growth have improved. To the end of March, employment had risen 1.7 per cent from the previous year and was trending upward on a seasonally adjusted basis. Employment in 2011 is forecast to rise 2.1 per cent from 2010. Despite the increase, it will not be until 2012 when employment in Calgary reaches pre-economic downturn levels. In 2012, employment growth is expected to increase 2.4 per cent.

Labour market conditions have improved since the second quarter of 2010 when the seasonally adjusted unemployment rate peaked at 7.4 per cent. Since then, the unemployment rate has steadily moved lower reaching 6.1 per cent in the first quarter of 2011. Part of the decline

Figure 7



Source: Statistics Canada, CMHC Forecast (f)

was due to recent employment gains as well as changes to the labour force. During 2010, the labour force was reduced as some job seekers went back to school to upgrade their skills while others stopped looking for work until labour market conditions improved. The seasonally adjusted participation rate, which captures the proportion of the population that is working or looking for work, was 73 per cent in December 2010, reaching its lowest level since October 2005. With more job seekers expected to re-enter the labour force, the unemployment rate is anticipated to remain near its current level and may drift up before moving lower. The unemployment rate in 2011 is forecast to average 5.9 per cent and decline to 5.4 per cent in 2012.

Wage growth was relatively flat in 2010, held back by weaker labour market conditions. Average weekly earnings of $982 in 2010 were up only 0.6 per cent from a year earlier. With improved job creation among full-time positions and in the higher-paying sectors, average weekly earnings are anticipated to post stronger gains in 2011. The improvement in wages will help cushion some of the increase in monthly carrying costs brought on by higher prices and mortgage rates.

Weaker employment prospects and the rising unemployment rate in the last few years have attracted lower levels of migrants. Net migration into Calgary declined 50 per cent in 2010 to 11,100 people, down from 22,136 in the previous year. With employment conditions increasing, net migration is anticipated to improve in 2011 and 2012. Increased activity in the energy industry will boost economic growth across many sectors, attracting migrants to fill vacant positions. Overall, anticipated migration patterns are expected to support demand for all housing types in Calgary. In 2011, total net migration is forecast to rise 11 per cent to 12,300 migrants and another 14 per cent in 2012 to 14,000 migrants.

MORTGAGE RATE OUTLOOK

On April 12th, the Bank of Canada announced that it was leaving the Target for the Overnight Rate unchanged at 1.0 per cent. The last increase in the overnight rate occurred on September 8, 2010 when the Bank of Canada raised it by 25 basis points. The Bank of Canada is expected to resume raising the overnight rate in the fourth quarter of 2011. Mortgage rates, particularly short term mortgage rates and variable mortgage rates, are expected to remain at historically low levels.

According to CMHC's base case scenario, posted mortgage rates will remain relatively flat in 2011 before increasing moderately in 2012. For 2011, the one-year posted mortgage rate is assumed to be in the 3.1 to 3.5 per cent range, while three and five-year posted mortgage rates are forecast to be in the 4.1 to 5.6 per cent range. For 2012, the one-year posted mortgage rate is assumed to be in the 3.4 to 4.3 per cent range, while three and five-year posted mortgage rates are forecast to be in the 4.2 to 6.3 per cent range.

Rates could, however, increase at a faster pace if the economy ends up recovering more quickly than presently anticipated. Conversely, rate increases could be more muted if the economic recovery is more modest in nature.

Forecast Summary Calgary CMA Spring 2011	2008	2009	2010	2011f	% chg	2012f	% chg
Resale Market							
MLS® Sales	23,136	24,880	20,996	22,000	4.8	22,500	2.3
MLS® New Listings	56,187	41,640	46,278	45,500	-1.7	44,000	-3.3
MLS® Average Price ($)	405,267	385,882	398,764	403,000	1.1	412,000	2.2
New Home Market							
Starts:							
Single-Detached	4,387	4,775	5,782	5,200	-10.1	5,700	9.6
Multiples	7,051	1,543	3,480	3,300	-5.2	3,900	18.2
Starts - Total	11,438	6,318	9,262	8,500	-8.2	9,600	12.9
Average Price ($):							
Single-Detached	581,800	547,795	514,466	525,000	2.0	534,000	1.7
Median Price ($):							
Single-Detached	487,141	450,302	435,251	445,000	2.2	453,000	1.8
New Housing Price Index (% chg.)	0.7	-6.7	1.7	0.7	-	1.7	-
Rental Market							
October Vacancy Rate (%)	2.1	5.3	3.6	3.4	-	2.9	-
Two-bedroom Average Rent (October) ($)	1,148	1,099	1,069	1,090	-	1,120	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.70	4.02	3.49	3.23	-	3.76	-
Mortgage Rate (5 year) (%)	7.06	5.63	5.61	5.45	-	5.94	-
Annual Employment Level	718,600	713,600	704,800	719,600	2.1	736,900	2.4
Employment Growth (%)	4.1	-0.7	-1.2	2.1	-	2.4	-
Unemployment rate (%)	3.5	6.7	6.8	5.9	-	5.4	-
Net Migration	21,952	22,136	11,100	12,300	10.8	14,000	13.8

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over
The forecasts included in this document are based on information available as of April 28, 2011.

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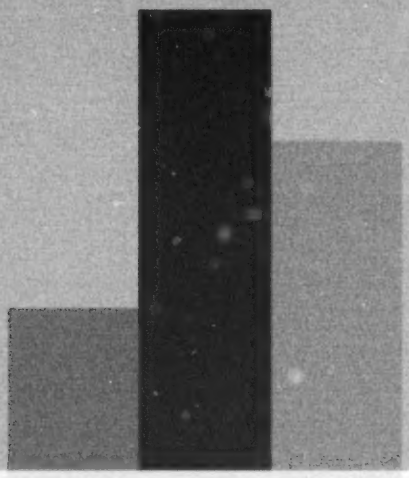

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